

**ST. TAMMANY PARISH HOSPITAL
SERVICE DISTRICT NO. 2**

d/b/a SLIDELL MEMORIAL HOSPITAL

Consolidated Financial Statements
December 31, 2012 and 2011

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAY 15 2013

Contents

Management's Discussion and Analysis	i - ix
---	--------

Independent Auditor's Report	1 - 2
-------------------------------------	-------

Consolidated Basic Financial Statements

Statements of Net Position	3 - 4
----------------------------	-------

Statements of Revenues, Expenses, and Changes in Net Position	5
---	---

Statements of Cash Flows	6 - 7
--------------------------	-------

Notes to Consolidated Financial Statements	8 - 31
--	--------

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32 - 33
--	---------

Summary Schedule of the Current Status of Prior Years' Audit Findings	34
--	----

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Management's Discussion and Analysis

This section of St. Tammany Parish Hospital Service District No. 2's (Slidell Memorial Hospital, or "SMH" or the "Hospital") annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on December 31, 2012. This should be read in conjunction with the financial statements in this report.

Executive Summary

The Hospital continued to make strategic investments in physician alignment, service growth, and quality improvement to position the facility for the future. The SMH Physician Network has grown to a complement of seven primary care physicians, nine specialists, and two nurse practitioners. In 2012, the Physician Network recruited physicians in the specialty areas of general surgery, interventional pain and pediatric medicine. Management and the Board are committed to a strategy of reducing variation in medical practice and increasing access to primary care in the market place. The hospitalists group is focused on excellent patient satisfaction and best practice medicine. The hospitalists group continues to attend to over 50% of the hospitalized patients. The hospitalist program also alleviates the emergency department call burden on primary care physicians.

In 2012, the Hospital broke ground on a \$29 million Emergency Room and Cardiology expansion project. This expansion project is expected to open in August 2013. This expansion will increase capacity in the Emergency Room and will add thirty-eight private rooms in the new Cardiology Unit.

The SMH Regional Cancer Center provides a comprehensive, coordinated care model with services ranging from an appearance center, library, laboratory, pharmacy, and infusion center in addition to a wide range of treatment services in the Radiation Therapy area. The department received American College of Radiation Oncology accreditation in the first quarter of 2012. Services were expanded in 2012 to include a caregiver's support group, enhanced patient navigation, Tulane head/neck specialists and an LSU geneticist. In addition, SMH developed the new Cancer Survivorship Program and the Multi-Disciplinary Clinic in 2012.

As a result of the focus on quality, the hospital developed the Slidell Chapter of Gulf South Quality Network (GSQN) a clinically integrated network of physicians partnered with Slidell Memorial Hospital. More than 120 Slidell physicians were recruited to work toward improving quality and efficiency in healthcare.

The Hospital received many awards and recognitions in 2012. The American Heart Association awarded the Silver Award for Get with the Guidelines compliance for heart failure protocol. The American Heart Association awarded SMH the Fit-Friendly Company Gold Award. The Hospital was named the Chamber of Commerce Community Involvement Large Business of the Year. Two Hospital team members were named Healthcare Heroes by New Orleans City Business. Dr. McElveen received the American Cancer Society Spirit Award. The Hospital was honored by the City of Slidell for the Community Medical Service Provider Honor for providing care during Hurricane Isaac. The Hospital received Best Practice Award by Med Asset for Cost Management Performance. Six nurses were recognized by the Northshore District Nurses Association. New Orleans City Business recognized Slidell Memorial Hospital with the Best Places to Work Award. The Hospital was recognized in Becker's Hospital Review for one of the top ten new Cardio/Ed Construction Projects.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Management's Discussion and Analysis

Not unlike many states, Louisiana faced significant budget challenges in 2012. As a result of a 3.7% rate reduction, a reduction in the Community Hospital DSH, and a reduction in the High Risk Medicaid DSH Pool, SMH incurred a \$1.6 million payment cut in the year 2012. Due to unfunded programs, the State of Louisiana Department of Health and Hospitals (DHH) leaves approximately \$800 million of federal Medicaid match on the table each year.

Financial Highlights

Net patient service revenue decreased by 3.7% from the prior year. This decrease is a result of a decrease in patient days by 5.1% from prior year. Volumes were down over prior year with the exception of births, surgical specialty, and emergency room visits. The volume shrinkage is not representative of market share loss, but lower utilization reflecting the impact of the poorer economy. The Hospital's payer mix remained fairly flat compared to 2011.

Operating expenses before depreciation and amortization in 2012 decreased 3.4% from the prior year reflecting cost savings initiatives such as the enrollment in the Federal 340B program on October 1, 2011, and the community service efforts of the Low Income Needy Care Collaboration. Management operates the facility on a daily productivity management system to flex variable labor by shift. Departmental Operating Statements are published monthly with flex budget reporting to guide management on budget variance action plans.

The Hospital's total net position increased by \$2.7 million from the prior year. The assets of the Hospital exceeded liabilities at the close of the 2012 fiscal year by \$69.8 million. Of this amount, \$24.8 million (unrestricted net position) may be used to meet ongoing obligations to the Hospital's patients and creditors, and \$37.0 million is invested in capital assets, net of related debt.

Overview of the Financial Statements

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Consolidated Financial Statements, and Supplementary Information.

The Consolidated Financial Statements of Slidell Memorial Hospital report the consolidated financial position of the Hospital and the consolidated results of its operations and its cash flows. The consolidated financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Management's Discussion and Analysis

The Consolidated Statements of Net Position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. It also provides the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the *Consolidated Statements of Revenues, Expenses, and Changes in Net Position*. This statement measures the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the Consolidated Statement of Cash Flows is to provide information about the Hospital's cash from operations, investing, and financing activities. The cash flow statement outlines where the cash comes from, what the cash is used for, and the change in the cash balance during the reporting period.

The annual report also includes Notes to Consolidated Financial Statements that are essential to gain a full understanding of the data provided in the consolidated financial statements. The notes to the consolidated financial statements can be found immediately following the basic financial statements in this report.

Following the notes to the consolidated financial statements is a section containing supplementary information that further explains and supports the information reported in the consolidated financial statements. This section includes optional consolidating schedules.

Financial Analysis of the Hospital

The consolidated statements of net position and the consolidated statements of revenue, expenses, and changes in net position report information about the Hospital's activities. These two statements report the net position of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net position, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions (including uninsured and working poor) and population growth.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Management's Discussion and Analysis

Net Position

A summary of the Hospital's statements of net position is presented in the following table:

Condensed Consolidated Statements of Net Position
(In Thousands)

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010
Current and other assets	\$ 89,158	\$ 84,216	\$ 82,603
Capital assets, net	81,310	71,707	68,012
Total assets	\$ 170,468	\$ 155,923	\$ 150,615
Long-term debt outstanding	\$ 83,889	\$ 71,346	\$ 64,064
Other liabilities	16,819	17,542	18,746
Total liabilities	\$ 100,708	\$ 88,888	\$ 82,810
Net investment in capital assets	\$ 36,983	\$ 33,410	\$ 30,019
Restricted	8,027	8,143	7,569
Unrestricted	24,750	25,482	30,217
Total net position	\$ 69,760	\$ 67,035	\$ 67,805

December 31, 2012

Long-term debt increased \$12.5 million while other and capital assets increased \$14.5 million reflecting the net effect of the latest expansion project related debt issuance, proceeds, investment in capital, and depreciation of existing capital assets.

December 31, 2011

Long-term debt increased \$7 million while other and capital assets increased \$5 million reflecting the net effect of the latest expansion project related debt issuance, proceeds, investment in capital, and depreciation of existing capital assets.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Management's Discussion and Analysis

Summary of Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended December 31, 2012, 2011 and 2010:

**Condensed Consolidated Statements of Revenues, Expenses, and
Changes in Net Position
(In Thousands)**

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010
Net patient service revenue	\$ 120,080	\$ 124,730	\$ 123,066
Other operating revenue excluding interest income	5,334	2,993	2,854
Total operating revenues	125,414	127,723	125,920
Operating expenses before depreciation/amortization	115,158	119,164	118,179
Earnings before interest depreciation and amortization and non-operating revenues (expenses) (EBIDA)	10,256	8,559	7,741
Depreciation and amortization expense	9,393	9,763	7,723
Operating net income (loss)	863	(1,204)	18
Non-operating revenues (expenses):			
Interest income	430	252	352
Interest expense	(2,196)	(2,421)	(1,919)
Property tax revenue	3,615	3,832	3,551
Other, net	13	(1,229)	(503)
Excess (deficiency) of revenues over expenses	2,725	(770)	1,499
Total net position - beginning of year	67,035	67,805	66,306
Total net position - end of year	\$ 69,760	\$ 67,035	\$ 67,805

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Management's Discussion and Analysis

The following table represents the relative percentage of gross charges billed for patient services by payer for the fiscal years ended December 31, 2012, 2011 and 2010:

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010
Medicare & Medicare HMO	52%	52%	51%
Medicaid	12%	12%	12%
Managed care and commercial insurance	32%	32%	33%
Uninsured patients	4%	4%	4%
Total gross charges	100%	100%	100%

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Position between 2012, 2011 and 2010:

- In 2012, the Hospital had 6,612 acute inpatient admissions. This is an increase of 1.7% from fiscal year 2011. The Hospital's observation admissions decreased 12.5% from 2011. During 2011, the Hospital had 6,500 acute inpatient admissions. This was a decrease of 10.8% from fiscal year 2010.
- Emergency registrations were 28,662 and 28,129 in 2012 and 2011, respectively, representing an increase of 1.9% in 2012 over 2011. There was an increase of 1.4% in 2011 compared to fiscal year 2010.
- During 2012, net patient service revenue decreased \$4.7 million, or 3.7%, from 2011. This decrease is a result of a decrease in volumes from prior year. During 2011, net patient service revenue increased \$1.7 million, or 1.4%, from 2010.
- During 2012, other operating revenue excluding interest income increased \$2.3 million, or 78%, as a result of receiving reimbursement for meeting the EHR meaningful use requirements.
- During 2012, salaries, wages and benefits increased 2.2% from prior year reflecting increased staff required to handle volume increases in specific specialty areas. During 2011, salaries, wages and benefits increased 1.6% from 2010.
- During 2012, supplies and materials decreased approximately 12.0% compared to 2011 primarily due to the participation in the 340B drug program. During 2011, supplies and materials increased 6.0% compared to 2010.
- Professional Fees decreased 39% from 2011 to 2012, compared to a decrease of 27.0% from 2010 to 2011. This decrease in expense is a direct result of participating in the Upper Payment Limit program (UPL).

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Management's Discussion and Analysis

- Other Direct expenses increased 5.8% from 2011 to 2012. These expenses increased by approximately 8.9% in 2011 over the previous year. This variance is a result of costs previously reflected in professional fees that were transitioned to collaborative agreements.

Performance Against Budget

	FY 2012 Budget	FY 2012 Actual	Favorable (Unfavorable) Variance
Revenues:			
Net patient service revenue	\$ 128,814	\$ 120,080	\$ (8,734)
Other operating revenue	2,607	5,334	2,727
Total operating revenues	131,421	125,414	(6,007)
Operating expenses:			
Salaries, wages and benefits	63,869	63,526	343
Supplies and other	48,609	42,255	6,354
Professional and contractual services	9,620	9,377	243
Total operating expenses before depreciation/ amortization and non-operating revenues (expenses)	122,098	115,158	6,940
EBIDA	9,323	10,256	933
Interest income	289	430	141
Interest expense	(2,190)	(2,196)	(6)
Depreciation and amortization	(9,807)	(9,393)	414
Non-operating revenue, net	3,707	3,628	(79)
Excess (deficiency) of revenues over expenses	1,322	2,725	1,403
Increase in net position	\$ 1,322	\$ 2,725	\$ 1,403

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Management's Discussion and Analysis

Capital Assets

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Percent Change
Land and land improvements	\$ 8,523	\$ 8,034	\$ 489	6%
Building and leasehold improvements	93,508	90,843	2,665	3%
Equipment	81,751	76,204	5,547	7%
Construction in progress	11,234	1,580	9,654	611%
Subtotal	195,016	176,661	18,355	10%
Less: accumulated depreciation	(113,706)	(104,954)	(8,752)	8%
Net capital assets	\$ 81,310	\$ 71,707	\$ 9,603	13%

Economic Factors and Next Year's Budget

The Hospital's Board and Management considered many factors when setting the fiscal year 2013 budget. One major consideration is the opening of the new Emergency Room and Cardiology unit, scheduled to open in August 2013. Management will continue to focus on recruiting employed physicians in primary care as well as specialty areas. In addition, the broad economy is of significant importance in setting the 2013 budget, which takes into account market forces and environmental factors such as:

- The effect of general weakness in the broad economy signaling changes in employment, employment related benefits, and ultimately managed care tightness on utilization and rates.
- The State of Louisiana continues to face deficits which place Medicaid rates and other reimbursement methods at risk. Hospital Medicaid rates are currently expected to take a 1% hit in February 2013. Medicaid is targeting additional reductions in reimbursements in the NICU and ER specialties. Management continues to educate lawmakers about the rate inequity among Louisiana hospitals.
- SMH will continue investment in physician alignment and information systems which are anticipated to be a key part of long term success if not survivability of hospitals in an era of pay for performance, bundled payment, and/or accountable care organizations.
- The industry will continue to face growing utilization of costly technology without adequate reimbursement.
- The industry will continue to face the growing number of high cost of drugs, such as chemotherapy agents and new genetic custom specialty drugs, without adequate reimbursement.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Management's Discussion and Analysis

- The industry will continue to face increased compliance costs due to pay for performance, HIPAA and other regulations.

Contacting the Hospital Financial Manager

This Financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Slidell Memorial Hospital, 1001 Gause Blvd. Slidell, LA 70458.



LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

Independent Auditor's Report

To the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2
Slidell, Louisiana

Report on Financial Statements

We have audited the accompanying consolidated financial statements of the St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of and for the years ended December 31, 2012 and 2011, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Managements Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

An Independently Owned Member, McGladrey Alliance

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital), as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i - ix be presented to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audit of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report and the related Summary Schedule of the Current Status or Prior Years' Audit Findings is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA
April 22, 2013

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

**Consolidated Statements of Net Position
December 31, 2012 and 2011**

	2012	2011
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 42,390,248	\$ 43,115,489
Patient Accounts Receivables, Net of Allowances for Uncollectible Accounts of \$8,872,352 and \$6,497,059 in 2012 and 2011, Respectively	12,968,965	15,496,444
Assets Whose Use is Limited, Required for Current Liabilities	3,485,394	3,121,035
Inventories	3,207,147	3,131,477
Prepaid Expenses and Other Receivables	6,805,253	4,790,901
Total Current Assets	68,857,007	69,655,346
Assets Whose Use is Limited or Restricted		
Under Agreements for Capital Improvements and Debt Service	18,757,684	13,278,830
By Board Direction	399,241	328,980
By State Department of Workers' Compensation	700,000	700,000
Total Assets Whose Use is Limited or Restricted	19,856,925	14,307,810
Capital Assets		
Land and Improvements	8,522,433	8,033,615
Buildings and Improvements	93,508,026	90,842,903
Equipment	81,750,886	76,204,466
Construction in Progress	11,234,208	1,579,519
	195,015,553	176,660,503
Less: Accumulated Depreciation	(113,705,665)	(104,953,674)
Capital Assets, Net	81,309,888	71,706,829
Other Assets, Net	444,277	252,722
Total Assets	\$ 170,468,097	\$ 155,922,707

The accompanying notes are an integral part of these consolidated financial statements.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Consolidated Statements of Net Position (Continued)
December 31, 2012 and 2011

	2012	2011
Liabilities and Net Position		
Current Liabilities		
Trade Accounts Payable	\$ 4,611,719	\$ 6,172,178
Salaries, Wages and Benefits Payable	1,762,339	1,279,115
Accrued Paid Time Off Payable	1,996,831	2,131,192
Accrued Interest and Other Expenses	5,133,403	4,765,741
Amounts Due Within One Year on Capital Lease Obligations	-	248,527
Amounts Due Within One Year on Bonds Payable	2,200,000	1,875,000
Amounts Due Within One Year on Hospital Indebtedness and Notes Payable	1,115,000	1,070,000
Total Current Liabilities	16,819,292	17,541,753
Bonds Payable, Less Amounts Due Within One Year and Unamortized Loss on Advanced Refunding	53,543,068	40,560,000
Hospital Indebtedness, Less Amounts Due Within One Year	2,385,000	3,500,000
Community Disaster Loan, Including Accrued Interest	27,960,713	27,285,844
Commitments and Contingencies (Notes 6, 7 and 9)	-	-
Total Liabilities	100,708,073	88,887,597
Net Position		
Net Investment in Capital Assets	36,982,432	33,410,292
Restricted for:		
Debt Service	7,327,466	7,442,875
Workers' Compensation	700,000	700,000
Unrestricted	24,750,126	25,481,943
Total Net Position	69,760,024	67,035,110
Total Liabilities and Net Position	\$ 170,468,097	\$ 155,922,707

The accompanying notes are an integral part of these consolidated financial statements.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Consolidated Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Revenues		
Net Patient Service Revenue	\$ 120,079,661	\$ 124,730,293
Other Revenue	5,334,273	2,993,176
Total Revenues	125,413,934	127,723,469
Operating Expenses		
Salaries and Wages	52,485,089	52,072,353
Employee Benefits	11,040,631	10,090,272
Supplies and Materials	26,299,360	29,884,049
Other Direct Expenses	15,955,950	15,086,748
Professional Fees	4,227,719	6,925,445
Purchased Services	5,149,426	5,105,546
Depreciation and Amortization	9,392,832	9,762,584
Total Operating Expenses	124,551,007	128,926,997
Operating Income (Loss)	862,927	(1,203,528)
Non-Operating Revenues (Expenses)		
Interest Income	430,106	251,780
Interest Expense	(2,196,146)	(2,421,037)
Property Tax Revenue	3,614,955	3,832,221
Loss on Disposal of Assets	-	(1,072,841)
Other, Net	13,072	(156,485)
Total Non-Operating Revenues, Net	1,861,987	433,638
Change in Net Position	2,724,914	(769,890)
Net Position, Beginning of Year	67,035,110	67,805,000
Net Position, End of Year	\$ 69,760,024	\$ 67,035,110

The accompanying notes are an integral part of these consolidated financial statements.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

**Consolidated Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities		
Cash Received from Patient Services	\$ 124,218,356	\$ 125,616,624
Cash Paid to or on Behalf of Employees	(63,032,037)	(62,615,906)
Cash Paid for Supplies and Services	(53,482,327)	(58,385,484)
Cash Received from Federal and State Programs	2,128,431	2,414,261
Net Cash Provided by Operating Activities	9,832,423	7,029,495
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Receipts (Expenditures), Net	13,072	(156,485)
Net Cash Provided by (Used in) Non-Capital Financing Activities	13,072	(156,485)
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(18,377,452)	(14,584,089)
Proceeds from Bond Issuance	21,180,000	9,800,000
Principal Payments on Long-Term Debt and Capital Lease Obligations	(3,193,527)	(4,087,335)
Extinguishment of Debt	(5,530,000)	-
Cost of Extinguishment of Debt	(494,808)	-
Dedicated Property Tax Revenue Received	3,506,955	3,457,222
Costs of Debt Issue	(133,877)	(56,588)
Interest Payments	(2,052,659)	(1,620,085)
Proceeds from Sale of Capital Assets	-	1,222
Net Cash Used in Capital and Related Financing Activities	(5,095,368)	(7,089,653)
Cash Flows from Investing Activities		
Increase in Assets Whose Use is Limited or Restricted	(5,805,474)	(1,601,925)
Purchase of Investment	(100,000)	-
Interest Earned on Investments	430,106	251,780
Net Cash Used in Investing Activities	(5,475,368)	(1,350,145)
Decrease in Cash and Cash Equivalents	(725,241)	(1,566,788)
Cash and Cash Equivalents, Beginning of Year	43,115,489	44,682,277
Cash and Cash Equivalents, End of Year	\$ 42,390,248	\$ 43,115,489

Supplemental Disclosure of Non Cash Investing and Financing Activities

During the year ended December 31, 2012, capital assets with an original cost basis of \$625,653, and a net book value of \$-0-, were disposed during the Hospital's ongoing expansion and construction.

The accompanying notes are an integral part of these consolidated financial statements.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

**Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2012 and 2011**

	2012	2011
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating Income (Loss)	\$ 862,927	\$ (1,203,528)
Adjustments to Reconciliation of Operating Income (Loss) to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	9,392,832	9,762,584
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	2,527,479	890,291
Inventories and Other Operating Assets	(2,090,022)	(2,109,813)
Accounts Payable and Accrued Expenses	(860,793)	(310,039)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 9,832,423	\$ 7,029,495

The accompanying notes are an integral part of these consolidated financial statements.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization

The consolidated basic financial statements include the accounts of the following entities:

Slidell Memorial Hospital (the Hospital) is a nonprofit corporation organized as St. Tammany Parish Hospital Service District No. 2 (the District), a political subdivision of the state of Louisiana as established in Act 180 of the 1984 Regular Session of the Legislature, as amended, and is exempt from federal and state income taxes. The governing authority of the District is the St. Tammany Parish Hospital Service District No. 2 Board of Commissioners (the Board), which are appointed by a cross-section of representatives of city, parish, and state government bodies. The Board is authorized to oversee the assets and govern the operations of the District. The Hospital operates a full service acute care community hospital.

Slidell Memorial Hospital Foundation, Inc. and its predecessor, Slidell Memorial Health Foundation, Inc., collectively herein referred to as **the Foundation**. The predecessor was dissolved in 2010. As of December 31, 2010, the Foundation is comprised of a Louisiana non-profit corporation exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Foundation's sole member is St. Tammany Hospital Service District No. 2 (the District). The Foundation is operated by the District and was formed to provide the Hospital with supplemental funds for certain programs and other support.

SMH Physician Practice Services, Inc. (PPS) is a Louisiana non-profit corporation originally organized to assist the Hospital in providing medical services to the community in a cost effective and efficient manner by assuring the availability of competent health care personnel. PPS is owned by the District and is a taxable non-profit corporation. PPS is currently inactive.

Slidell Radiation Center, Inc. (SRC) is a Louisiana non-profit corporation organized to purchase and operate a radiation facility. SRC is owned and operated by the District and is a taxable non-profit corporation.

The Hospital, the Foundation, PPS, and SRC are collectively referred to as the Organization. There are no other organizations or agencies whose financial statements should be consolidated and presented with these consolidated financial statements.

Principles of Consolidation

As mentioned above, the accompanying consolidated financial statements include the accounts and transactions of the Hospital, the Foundation, PPS, and SRC. All significant intercompany accounts and transactions have been eliminated in consolidation.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the allowance for uncollectible accounts receivable and amounts estimated to be recovered from third party payors are particularly sensitive estimates and are subject to change.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Organization utilizes the accrual basis of accounting for proprietary funds.

Cash and Cash Equivalents

Cash and cash equivalents are recorded at fair value. The Organization reports short-term, highly liquid investments whose use is not limited (that are both readily convertible to known amounts of cash and mature within three months or less from date of purchase) as cash equivalents. As of December 31, 2012 and 2011, the Organization's cash, cash equivalents, and certificates of deposit were entirely insured or collateralized with securities held by its agent in the Organization's name.

Inventories

Inventories, which consist primarily of drugs and supplies, are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Land, buildings, and equipment acquisitions are recorded at historical cost except for assets donated to the Organization. Donated assets are recorded at fair value on the date of donation. Depreciation of buildings and equipment is computed using the straight-line method in amounts sufficient to amortize the cost of these assets over their estimated useful lives.

Equipment held under capital lease obligations has been recorded at the present value of the minimum lease payment. Amortization of leased assets is included in depreciation and amortization expense.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted consists of cash and investments reported at fair value with gains and losses included in the consolidated statements of revenues, expenses and changes in net position.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Other Assets

Other assets consist of the unamortized portion of debt issuance costs.

Debt issuance costs are amortized over the term of the related debt issue using a method that approximates the interest method. Accumulated amortization on bond issuance costs was \$144,053 and \$101,731, at December 31, 2012 and 2011, respectively.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, consisting of property and equipment and cost in excess of net assets acquired, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable. The Organization determines recoverability of the assets by comparing the carrying value of the asset to net future undiscounted cash flows that the asset is expected to generate. The impairment recognized is the amount by which the carrying amount exceeds the fair market value of the asset. There were no asset impairments recorded during 2012 and 2011.

Net Patient Service Revenue and Related Receivables

Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Organization provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Organization is exposed to certain credit risks. The Organization manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities.

Medicare and Medicaid Reimbursement Programs

The Hospital is reimbursed under the Medicare Prospective Payment System for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the Hospital is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The Hospital qualifies as a disproportionate share provider under the Medicare regulations. As such, the Hospital receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

The Hospital is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Medicare and Medicaid Reimbursement Programs (Continued)

Medicare outpatient services (excluding clinical lab and outpatient therapy) are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the Hospital is paid a predetermined amount per procedure. Medicaid outpatient services (excluding ambulatory surgery, therapy and clinical lab) were reimbursed at 68.63% and 69.71% of the lower of cost or charges as of December 31, 2012 and 2011, respectively. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy services are reimbursed based upon the respective fee schedules.

Retroactive cost settlements, based upon annual cost reports, are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

Grants and Contributions

From time to time, the Hospital and its Foundation receives grants from the State of Louisiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

Net Position

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended*, net position is classified into three components – net investment in capital assets, restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Restricted

This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted

All other net position is reported in this category.

Employee Health and Workers' Compensation Insurance

The Organization is self-insured for hospitalization and workers' compensation claims. Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in accrued interest and other expenses on the consolidated balance sheets.

Statements of Revenues, Expenses, and Changes in Net Position

All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the consolidated statements of revenues, expenses, and changes in net position. Non-operating revenues and expenses consist of revenues and expenses related to financing and investing type activities and result from non-exchange transactions or investment income.

Property Tax Revenues

The Hospital receives dedicated property tax revenues in amounts sufficient to fund annual debt maturities of the general obligation bonds and related interest costs (see Note 7). Such revenues are considered non-operating in the accompanying consolidated statements of revenues, expenses and changes in net position. Unexpended property tax revenues are accumulated in a restricted fund held in trust and are exclusive of governmental debt service.

Capitalized Interest

The Organization capitalizes interest cost incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost, net of related interest revenue on borrowed funds, capitalized in connection with construction was \$618,439 and \$79,135, in the years ended December 31, 2012 and 2011, respectively.

Compensated Absences

The Organization's employees earn paid time off at varying rates depending on years of service. The estimated amount of paid time off as termination payments is reported as a component of the current liability for salaries wages and benefits payable in both 2012 and 2011.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletin of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of this statement in 2012 does not have any impact on the Organization's consolidated financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components of assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this statement are effective for financial periods beginning after December 15, 2011. During 2012, the Organization adopted the statement and restated balances previously referred to as net assets to net position.

Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Additionally, the GASB evaluated debt issue costs and concluded that, with the exception of prepaid insurance, the costs relate to services provided in the current period and thus they should be expensed in the current period. This is a significant change from current practice which is to record these as assets and amortize them over the life of the related debt issue. The provisions of the statement are effective for periods beginning after December 15, 2012. Management anticipates, upon retrospective adoption of this new standard in 2013, net position will decrease \$344,277 due to derecognition of the unamortized portion of the asset associated with bond issue costs as of December 31, 2012. Similarly, the reported change in net position for the year ended December 31, 2012 will be decreased \$91,555 to reflect the reclassification of 2012 costs as expenses, net of the derecognition of amortization expense associated with these assets. The unamortized loss on advance refunding will be reclassified as a deferred outflow of resources on the statement of net position, rather than as a contra-liability as it is currently shown. This line item is still amortized as a component of interest expense over the shorter of the life of the old or new debt.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 2. Cash and Assets Whose Use is Limited or Restricted

Custodial Credit Risk - Deposits: Statutes authorize the Organization to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). The Organization's cash deposits and money market accounts included in cash and cash equivalents and assets whose use is limited on its balance sheets, as of December 31, 2012 and 2011, were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name.

Concentration of Credit Risk: As required under GASB Statement No. 40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2012 and 2011, the Organization had no investments requiring concentration of credit risk disclosure.

Assets Whose Use is Limited or Restricted: The terms of the Organization's bond issues require certain funds to be maintained on deposit with the trustee. The funds on deposit with the trustee, funds designated by the Board for capital improvements, and donated funds restricted by donor stipulations, as of December 31, 2012 and 2011, were as follows:

	2012	2011
Current Assets		
Dedicated Property Tax Revenue, Under Bond Indenture	\$ 3,485,394	\$ 3,121,035
Total	\$ 3,485,394	\$ 3,121,035
Non-Current Assets		
Dedicated Property Tax Revenue, and Amounts Under Bond Indenture	\$ 3,842,072	\$ 4,321,840
Under Agreements for Capital Improvements	14,915,612	8,956,990
By State Department of Workers' Compensation	700,000	700,000
By Board Direction	399,241	328,980
Total	\$ 19,856,925	\$ 14,307,810

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 2. Cash and Assets Whose Use is Limited or Restricted (Continued)

The Board Directed funds total in the previous table represents monies designated by the Board of Commissioners of the Hospital for capital improvements. Since 2001 the Board has granted management discretion to utilize these funds for other operating purposes. Management has continued to maintain these funds in a separate trust account and treat them as internally designated funds.

Note 3. Third-Party Payor Arrangements

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2012 and 2011, approximately 64% and 64%, respectively, of the Hospital's gross patient service charges were derived from services provided to Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amount becomes final. The fiscal intermediary has completed its review of estimated Medicare and Medicaid settlements for fiscal years ended through December 31, 2006. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits of the estimated settlements for the years ended December 31, 2007 through 2012 for Medicare and Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 3. Third-Party Payor Arrangements (Continued)

The Hospital has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined daily rates and discounts from established charges.

Note 4. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 2012 and 2011, was as follows:

	2012	2011
Gross Patient Service Revenue		
Medicare	\$ 202,820,338	\$ 202,462,683
Medicaid	78,409,043	76,920,439
Medicare HMO	129,811,202	124,631,972
Managed Care/Commercial	206,561,353	201,951,609
Self Pay/Uninsured	24,384,867	25,769,154
Total	641,986,803	631,735,857
Contractual Adjustments	(493,599,866)	(478,181,869)
Charity Care	(10,119,962)	(10,668,922)
Provisions for Bad Debts	(18,187,314)	(18,154,773)
Total	\$ 120,079,661	\$ 124,730,293

Note 5. Community Benefits

As a community health care provider, the Hospital's stated mission is "To Improve the Quality of Life in our Community". As such, total revenue includes that revenue generated from direct patient care, rentals from various medical office buildings, and sundry revenue related to the operation of the Hospital and its member organizations.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. As shown in Note 4, charity care provided during the years ended December 31, 2012 and 2011, measured at established rates, totaled \$10,119,962 and \$10,668,992, respectively.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 5. Community Benefits (Continued)

The Hospital received additional funding, totaling \$-0- and \$357,264, for 2012 and 2011, respectively, in disproportionate share payments related to high Medicaid utilization and uncompensated care costs which is included as a component of net patient service revenue. The Hospital has also entered into a series of agreements related to funding healthcare for low income populations which are detailed in Note 12.

The Hospital also sponsors or participates in numerous activities to benefit the community. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Annually, the Hospital sponsors several health fairs and programs regarding such issues as diabetes, breast cancer, smoking cessation, nutrition, exercise, cardiology, women's health, parenting skills, development topics, etc., to provide the community access to health-related information. Also, the Hospital provides health screenings at no cost, or a reduced cost, to the community. These include prostate cancer, cholesterol, colorectal, skin cancer, glucose, and thyroid screenings.

The Hospital encourages its employees to volunteer for charitable organizations and to participate in fundraising activities and, in some cases, pays employees to perform public services such as health screenings.

Note 6. Leases

Operating and Capital Lease Commitments

In previous years, the Hospital leased medical equipment under agreements accounted for as capital lease obligations. All of these obligations expired at various dates during 2012. The capital asset balances on the consolidated balance sheets included equipment held under capital lease obligations of \$-0- and \$6,030,007 less accumulated amortization of \$-0- and \$5,447,633, at December 31, 2012 and 2011, respectively.

The future minimum lease payments at December 31, 2012, for noncancelable leases are as follows:

	Operating Leases
2013	\$ 579,609
2014	399,598
2015	23,900
2016	-
Total	\$ 1,003,107

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 6. Leases (Continued)

Operating and Capital Lease Commitments (Continued)

The Hospital also leases medical and administrative equipment under operating leases with terms that vary from month-to-month to five years. Total rental expense included in other direct expenses on the consolidated statements of revenues, expenses, and changes in net position was \$1,199,271 and \$2,319,676, for the years ended December 31, 2012 and 2011, respectively.

Rental Income

The Hospital leases space to physicians through a combination of cancelable and noncancelable lease agreements accounted for as operating leases. Rental income earned under these agreements was \$1,813,403 and \$1,817,330, for the years ended December 31, 2012 and 2011, respectively.

The future minimum lease payments to be received on noncancelable leases are summarized as follows:

For the Year Ended December 31,	Amount
2013	\$ 1,529,437
2014	1,304,703
2015	1,091,398
2016	267,702
2017	65,889
Total	\$ 4,259,129

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt

The details and balances of long-term debt at December 31, 2012 and 2011, are presented in the following table:

	2012	2011
General Obligation Bonds, Series 2004A, Described in Detail Below (\$400,000 Due in 2013)	\$ 5,650,000	\$ 6,035,000
General Obligation Bonds, Series 2004B, Described in Detail Below (\$590,000 Due in 2013)	3,815,000	9,910,000
General Obligation Bonds, Series 2004C, Described in Detail Below (\$50,000 Due in 2013)	890,000	940,000
Hospital Indebtedness, Series 2005, Described in Detail Below (\$1,115,000 Due in 2013)	3,500,000	4,570,000
Community Disaster Loans, Including Accrued Interest Described in Detail Below	27,960,713	27,285,844
General Obligation Bonds, Series 2009, Described in Detail Below (\$875,000 Due in 2013)	14,875,000	15,750,000
General Obligation Bonds, Series 2011, Described in Detail Below (\$215,000 Due in 2013)	9,800,000	9,800,000
General Obligation Bonds, Series 2012, Described in Detail Below (\$-0- Due in 2013)	15,200,000	-
Refunding Bonds, Series 2012, Described in Detail Below (\$70,000 Due in 2013)	5,980,000	-
	<u>87,670,713</u>	<u>74,290,844</u>
Less: Unamortized Loss on Advanced Refunding	466,932	-
Less: Amounts Due Within One Year	3,315,000	2,945,000
	<u>3,315,000</u>	<u>2,945,000</u>
Total	\$ 83,888,781	\$ 71,345,844

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

The following table, for the years ended December 31, 2012 and 2011, summarizes the changes in long-term debt:

	2012	2011
Balance of Long-Term Debt at January 1,	\$ 74,290,844	\$ 66,660,977
Less: Refunding of Bonds	(5,530,000)	-
Less: Repayment of Bonds and Notes Payable	(2,945,000)	(2,845,000)
Plus: Issuance of General Obligation Bonds	15,200,000	9,800,000
Plus: Issuance of General Obligation Bonds (Refunding)	5,980,000	-
Plus: Long-Term Accrued Interest on CDL Loan	674,869	674,867
Balance of Long-Term Debt at December 31,	\$ 87,670,713	\$ 74,290,844

(The long-term debt balances in the tables above reflect long-term accrued interest on the Community Disaster Loans as a component of the total balance.)

General Obligation Bonds

Series 2004

In October 2003, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue up to \$22.45 million of general obligation bonds in 2004. The Hospital issued three series of general obligation bonds in 2004 to refinance the balances of 1994, 1996, and 1999 revenue bonds.

On March 31, 2004, the Hospital issued \$8 million in General Obligation Bonds with interest rates ranging from 2% to 5% to advance refund \$9.24 million of outstanding Hospital Revenue Bonds, Series 1994. The net proceeds of \$7.9 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1.99 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of the 1994 bonds until the bonds were advance refunded on October 4, 2004.

On July 29, 2004, the Hospital issued \$13.115 million in General Obligation Bonds with interest rates ranging from 4.125% to 6% to advance refund the remaining \$14.16 million in outstanding 1994 Revenue Bonds and all of the \$691,885 outstanding Hospital Revenue Bonds, Series 1996. The net proceeds of \$13 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$2.5 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 bonds until the amounts were advance funded on October 4, 2004. The entire amount of the Series 1996 Bonds were refunded on July 29, 2004.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

On July 29, 2004, the Hospital issued \$1.205 million in General Obligation Bonds with interest rates ranging from 5.8% to 8% to advance refund \$2.2 million of outstanding 1999 Revenue Bonds.

The net proceeds of \$1.2 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1 million of existing debt service reserve monies were deposited in an irrevocable trust with an escrow agent to provide for the advance refunding on July 29, 2004.

Series 2009

On June 1, 2009, the Hospital issued \$17.5 million in General Obligation Bonds with interest rates ranging from 4% to 6% for the purpose of constructing, acquiring, extending and improving a full service Cancer Center and related health care facilities. The Bonds were authorized by the voters of the District in a special election held on November 17, 2007.

Series 2011 and 2012

On April 30, 2011, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue up to \$25 million of general obligation bonds for the purpose of constructing, improving and expanding its facilities, including new emergency room services, cardiology services, and the conversion of existing semi-private rooms into private rooms.

The Hospital issued the first of this series of general obligation bonds on August 4, 2011, in the amount of \$9.8 million. Scheduled interest rates over the term of the 2011 bonds range from 2% to 4.75%.

The Hospital issued Series 2012 general obligation bonds in the amount of \$15.2 million on March 1, 2012. Scheduled interest rates over the term of the 2012 bonds range from 2% to 3.125%.

All of the District's general obligation bonds are secured by a pledge of dedicated property tax millages described in Note 1.

Interest on the general obligation bonds is payable semi-annually on March 1 and September 1 each year. The Series 2004 bonds mature in annual installments on March 1 each year until 2024 and can be called for early redemption after March 1, 2014. The Series 2009 bonds mature in annual installments on March 1 each year until 2029 and can be called for early redemption after March 1, 2019. The Series 2011 Bonds also mature in annual installments due on March 1 each year from 2013 until 2036, and can be called for redemption in full or in part on or after March 1, 2021. The subsequently issued Series 2012 bonds mature in annual installments due on March 1 each year from 2015 until 2032, and can be called for redemption in full or in part after on or after March 1, 2022.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

Refunding Bonds

On May 30, 2012, the Hospital issued \$5,980,000 of general obligation refunding bonds, Series 2012. The bonds were issued for the purpose of refunding a portion of the Hospital's outstanding Series 2004B general obligation bonds. The refunding bonds bear interest at a rate of 2.20%. Interest is payable semi annually on March 1 and September 1 each year. The bonds mature in annual installments on March 1 of each year until 2024. The bonds are not callable for early redemption.

The funds were used to purchase direct, non-callable obligations of the U.S. Government and those securities were deposited in an irrevocable escrow fund with an escrow agent to provide debt service payments until the Series 2004B general obligation bonds mature or until the optional redemption date of March 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the Hospital's balance sheet. At December 31, 2012, Series 2004B general obligation refunded bonds outstanding were \$5,530,000.

The loss incurred in connection with the advanced refunding of the Hospital's Series 2004B general obligation bonds has been deferred and is being amortized over the life of the refunded bond issue. Accumulated amortization on this deferred loss was \$27,876 at December 31, 2012. Amortization is included in interest expense.

Hospital Indebtedness Obligations

On July 27, 2005, the Hospital issued \$10 million of Hospital Indebtedness Obligations to finance the cost of constructing, acquiring, and/or improving hospital facilities and equipment for the Hospital. The Obligations bear rates ranging from 3.45% to 4.1% and are payable in annual installments through July 1, 2015. The Obligations are not callable for redemption prior to their stated maturity dates. The Obligations are secured by a pledge of the net income, revenues and receipts of the Hospital.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

Community Disaster Loans

During 2006, the Hospital received a total of \$23,503,926 in the form of promissory notes issued under the Community Disaster Loan Act of 2005. The proceeds of which were used to fund essential operations, primarily payroll and labor related costs subsequent to Hurricane Katrina. The loans bear interest at rates ranging from 2.8% to 3.12%, and both the principal and interest amounts were due in five years from the date of issuance at varying dates in fiscal year 2011. On February 10, 2011, the Hospital received an extension to repay the entire outstanding balance, inclusive of accrued interest, to fiscal year 2016.

The loans are payable from and secured by a pledge of the Hospital's revenues for each fiscal year while any of the notes are outstanding, after provision has been made for the payments required in connection with any outstanding bond indebtedness of the Hospital. Interest expense related to these loans was \$674,869 and \$674,866, for the years ended December 31, 2012 and 2011, respectively. There were no repayments of principal or interest during 2012 or 2011. Interest accrued to date as of December 31, 2012 was \$4,456,787. The total principal and cumulative accrued interest outstanding as of December 31, 2012 was \$27,960,713.

The Hospital has previously applied for forgiveness of its obligations to repay these loans under existing cancellation provisions, but has not received approval. However, on March 26, 2013 legislation was passed which amended the criteria for cancellation of the notes. The Hospital intends to submit supplemental documentation in support of its applications for cancellation on or before April 30, 2014. Final determination, and resolution of any appeal, will be made on or before April 30, 2015. Under the terms of the new legislation, obligations not cancelled in full shall be repaid no later than September 30, 2035. For disclosure purposes, these loans and their related accrued interest are now reflected as maturing in 2035, until notice is given of any cancellation.

Combined Existing Debt Service Commitments

Principal and interest payments due on general obligation bonds and notes payable outstanding as of December 31, 2012 are as follows:

Years Ended December 31,	Principal	Interest
2013	\$ 3,315,000	\$ 2,072,505
2014	3,435,000	1,948,663
2015	4,145,000	1,820,441
2016	3,015,000	1,682,862
2017	3,100,000	1,590,866
2018-2023	17,020,000	6,327,024
2023-2027	13,500,000	3,437,718
2028-2032	9,635,000	1,367,463
Thereafter	26,048,926	4,700,950
Total	\$ 83,213,926	\$ 24,948,492

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 8. Employee Benefits

The Hospital and its member organizations maintained a qualified noncontributory defined contribution pension plan which provided pension benefits for eligible employees through March, 2002. Beginning in April, 2002, the Hospital initiated a combined deferred compensation and contributory employee savings plan for full-time employees. Each employee's interest in the old plan fully vested and was transferred over to the new plan.

The new pension plan provides a discretionary employer match of participant elective deferrals up to 4%, beginning January 1, 2006, rather than contributions based on salaries. Plan participants, who attained age 50 as of September 26, 2005, and were contributing 8% at that time, continue to receive the employer match up to 8% of their elective deferral. Employees are eligible to participate at their date of hire. Participants are immediately vested in their contributions plus actual earnings thereon.

Vesting in the Hospital's contribution is based on years of service. After three years of eligible service, the employee is 100% vested. Prior to that time, the employee is 0% vested.

The total payroll for the years ended December 31, 2012 and 2011 was \$52,485,089 and \$52,072,353, respectively. During the years ended December 31, 2012 and 2011, the Hospital and member organizations made required contributions to the plan of \$1,281,583 and \$1,282,831, respectively.

Note 9. Risk Management and Regulatory Matters

Risk Management

The Hospital participates in the Louisiana Patients' Compensation Trust Fund (PCF) for insurance coverage on professional liability (medical malpractice) claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The PCF provides coverage on a claims occurrence basis for claims over \$100,000 and up to the \$500,000 statutory limitation. The Hospital is self-insured with respect to the first \$100,000 of each claim.

The Hospital also participates in the Louisiana Hospital Association Trust Fund (LHA Trust Fund), which provides general liability coverage up to \$1,000,000 per claim. The LHA Trust Fund also insures excess general liability claims in excess of \$1,000,000 but limited to \$9,500,000 per claim. Effective November 1, 2007, the Hospital's insurance coverage under the LHA Trust Fund is subject to a deductible of \$150,000 on a claims made basis.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 9. Risk Management and Regulatory Matters (Continued)

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. As of December 31, 2012, the Hospital has recorded professional and general liability accruals, totaling \$1,152,519, as an estimated provision for both asserted claims and for claims incurred but not reported. This provision is included as a component of accrued interest and other expenses on its consolidated balance sheet. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2012, exceeding these coverage limits; however, management believes it has adequately provided for them.

The Hospital is self-insured for workers' compensation up to \$300,000 per claim, and employee health up to \$140,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration claims incurred but not reported, recently settled claims, frequency of claims, and other economic and social factors. The Hospital carries commercial insurance which provides coverage for workers' compensation and employee health claims in excess of the self-insured limits.

As of December 31, 2012, the Hospital has recorded workers' compensation and employee health accruals, totaling \$587,366 and \$350,000, respectively, as an estimated provision for both asserted claims and for claims incurred but not reported. This provision is included as a component of accrued interest and other expenses on its consolidated balance sheet.

Changes in the Hospital's aggregate claims liability for professional, general liability, workers' compensation and employee health, which are included in accrued interest and other expenses on the accompanying balance sheets, were as follows for the years ended December 31, 2012 and 2011:

Years Ended December 31,	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2012	\$ 1,921,593	\$ 7,049,096	\$ 6,880,804	\$ 2,089,885
2011	\$ 1,630,203	\$ 6,124,672	\$ 5,833,282	\$ 1,921,593

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 9. Risk Management and Regulatory Matters (Continued)

Regulatory Matters

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Organization is in compliance with fraud and abuse, as well as other applicable government, laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a so-called Recovery Audit Contractor (RAC) program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare reimbursement in an amount estimated to equal the overpayment.

A five-state pilot program concluded in March 2008, with a nationwide rollout of the RAC effort done in phases beginning in 2009. The experiences during the pilot found far more overpayments than underpayments.

Similarly, the Centers for Medicare & Medicaid Services (CMS) created new entities titled Audit Medicaid Integrity Contractors (MIC) in order to continue its efforts to ensure the highest integrity of its healthcare programs. The goal of the provider audits is to identify overpayments and to ultimately decrease the payment of inappropriate Medicaid claims. The MIC is to review claims submitted by all types of Medicaid providers, including all settings of care and types of services, with most audits taking place at staff headquarters and on occasion on-site at a provider's place of business.

The Organization was the subject of ongoing RAC and MIC audits during 2012 and 2011, and deducts from revenue amounts assessed under the RAC audits at the time a notice is received, until such time that estimates of net amounts due can be reasonably estimated. Net assessments against the Organization have not been significant through December 31, 2012.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are often insured under third party payor agreements. The mix of receivables from patients and third party payors, net of contractual allowances and discounts, at December 31, 2012 and 2011, was as follows:

	2012	2011
Medicare	11%	13%
Medicaid	6%	6%
Medicare HMO	9%	12%
Managed Care and Other Payors	28%	28%
Patients	46%	41%
Total	100%	100%

Note 11. Changes in Capital Assets

Capital asset activity for the fiscal year ended December 31, 2012, was as follows:

	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012
Capital Assets Not Being Depreciated				
Land	\$ 5,943,431	\$ 202,070	\$ -	\$ 6,145,501
Construction in Process	1,579,519	9,654,687	-	11,234,206
Total Capital Assets Not Being Depreciated	7,522,950	9,856,757	-	17,379,707
Capital Assets Being Depreciated				
Land Improvements	2,090,186	286,748		2,376,934
Buildings	90,842,900	2,678,736	(13,612)	93,508,024
Equipment	76,204,467	6,334,959	(788,538)	81,750,888
Total Capital Assets Being Depreciated	169,137,553	9,300,443	(802,150)	177,635,846
Less Accumulated Depreciation for:				
Land Improvements	1,105,207	78,725	330	1,184,262
Buildings	50,614,616	3,199,489	(5,133)	53,808,972
Equipment	53,233,851	6,114,617	(636,037)	58,712,431
Total Accumulated Depreciation	104,953,674	9,392,831	(640,840)	113,705,665
Capital Assets Being Depreciated, Net	64,183,879	(92,388)	(161,310)	63,930,181
Total	\$ 71,706,829	\$ 9,764,369	\$ (161,310)	\$ 81,309,888

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 11. Changes in Capital Assets (Continued)

Capital asset activity for the fiscal year ended December 31, 2011, was as follows:

	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
Capital Assets Not Being Depreciated				
Land	\$ 5,919,209	\$ 24,222	\$ -	\$ 5,943,431
Construction in Process	15,836,537	4,992,239	(19,249,257)	1,579,519
Total Capital Assets Not Being Depreciated	21,755,746	5,016,461	(19,249,257)	7,522,950
Capital Assets Being Depreciated				
Land Improvements	2,087,827	2,359	-	2,090,186
Buildings	74,737,225	18,808,205	(2,702,530)	90,842,900
Equipment	68,093,239	10,058,435	(1,947,207)	76,204,467
Total Capital Assets Being Depreciated	144,918,291	28,868,999	(4,649,737)	169,137,553
Less Accumulated Depreciation for:				
Land Improvements	1,037,585	67,622	-	1,105,207
Buildings	49,090,422	3,179,287	(1,655,093)	50,614,616
Equipment	48,533,752	6,447,023	(1,746,924)	53,233,851
Total Accumulated Depreciation	98,661,759	9,693,932	(3,402,017)	104,953,674
Capital Assets Being Depreciated, Net	46,256,532	19,175,067	(1,247,720)	64,183,879
Total	\$ 68,012,278	\$ 24,191,528	\$ (20,496,977)	\$ 71,706,829

Construction in process at December 31, 2012 and 2011, relates principally to the construction of a \$25 million project to expand the emergency room department and make significant other improvements. The project is funded by a voter passed referendum which allowed the Organization to borrow \$25 million to finance the construction and related costs, as detailed in Note 7. The bond issue is to be serviced with revenues from the existing dedicated 7-mill property tax.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 12. Louisiana Medicaid Collaboration and Cooperative Endeavor Agreements

The Organization routinely provides a substantial amount of uncompensated care to patients in its service area. For the years ended December 31, 2012 and 2011, management estimated that the total costs associated with providing uncompensated care were in excess of \$10 million and \$11 million, respectively.

To improve or expand allowable healthcare services for Medicaid beneficiaries or low-income, uninsured patients, during 2011 and 2012, the Organization entered into a series of collaborative agreements and cooperative endeavors designed to allow additional Medicaid funds for providing these services in the community. These agreements are detailed below:

West Jefferson Medical Center Cooperative Endeavor Agreement. On November 29, 2011, the Organization entered into a cooperative endeavor agreement with West Jefferson Medical Center (WJMC) (a Louisiana hospital service district) and eleven other participating Louisiana hospital services districts (HSDs). The Centers for Medicare and Medicaid Services (CMS) has previously approved Medicaid State Plan Amendments (SPA), submitted by the Louisiana Department of Health and Hospitals (DHH), which provides for reimbursement to non-rural, non-state public hospitals up to the Medicare inpatient upper payment limits.

Under this agreement, WJMC has agreed to cooperate in the establishment of a funding program by contributing a portion of the upper payment limit (UPL) payments that result from SPAs to the other HSDs, including Slidell Memorial Hospital, for the purpose of ensuring adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens and medically underserved non-rural populations in Louisiana in a manner defined in the agreement. Funding for each participating hospital service district is based upon a formula utilizing each districts' reported Medicaid patient days. The term of this agreement is one year with automatic renewals for additional terms of one year unless earlier terminated.

Low Income and Needy Care Collaboration Agreement. Under the terms of this agreement with a private health care provider dated March 31, 2011, the Organization agreed to use public funds for purposes of funding Medicaid supplemental payments authorized under Medicaid State Plan Amendments LA 09-5S and LA 09-56. In exchange the private healthcare provider agrees to work cooperatively with Slidell Memorial Hospital to improve access to health care for low income and needy persons. The agreement may be terminated by either party with thirty days written notice.

Physicians' UPL Agreement with the Louisiana Department of Health and Hospitals (DHH). On December 8, 2011, the Organization entered in to an agreement with DHH which was approved by CMS. Under the program DHH began making payments under the Physician's Supplemental Payment Program for non-state owned public hospitals (HSD's) for dates of service effective July 1, 2010. The purpose of this program is to enhance payments to physicians employed or contracted by the public hospitals. Slidell Memorial Hospital agreed to transfer funds to DHH to be used as Medicaid matching funds for the purpose of making physician supplemental payments and providing the State with additional resources to assist in the medical costs to the State.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

**Note 12. Louisiana Medicaid Collaboration and Cooperative Endeavor Agreements
(Continued)**

Physicians' UPL Agreement with the Louisiana Department of Health and Hospitals (DHH) (Continued). These matching funds are comprised of (1) an amount to be utilized as the "non-federal share" of the supplemental payments for services provided by the identified physician; and other healthcare professionals and (2) the "state retention amount," which is fifteen percent of the "non-federal share", for the State to utilize in delivering healthcare services. In turn, DHH agrees to make supplemental Medicaid payments to the Hospital. The supplemental payments include the "non-federal share" and the "federal funds" generated by the "non-federal share" payments. The total amount of the supplemental payment is intended to represent the difference between the Medicaid payments otherwise made to these qualifying providers and the Average Community Rate for these services.

Summary. During 2012, in accordance with the funding provisions of the above agreements, the Organization recognized \$2,301,469 as an offset to Medicaid contractual adjustments resulting in a corresponding increase in net patient service revenue. Payments to DHH in conjunction with the Low Income and Needy Care Collaboration Agreement totaled \$3,827,139 which is being amortized monthly over the effective term of the agreement. A total of \$1,632,852 was recognized as other direct expenses during 2012, with the remainder of \$2,194,287 included on the Organization's consolidated balance sheet as of December 31, 2012 in prepaid expenses. The Organization also recognized \$99,211 as other direct expenses, funds paid or payable to DHH under the terms of the Physicians' UPL agreement during 2012 as income was recognized from the Medicaid Supplemental Payments.

During 2011, in accordance with the funding provisions of the above agreements, the Organization recognized \$2,443,604 as an offset to Medicaid contractual adjustments resulting in a corresponding increase in net patient service revenue. Payments to DHH in conjunction with the Low Income and Needy Care Collaboration Agreement totaled \$1,872,000 which is being amortized monthly over the effective term of the agreement. A total of \$1,083,829 was recognized as other direct expenses during 2011, with the remainder of \$788,171 included on the Organization's consolidated balance sheet as of December 31, 2011 in prepaid expenses. The Organization also recognized \$317,935 as other direct expenses, funds paid or payable to DHH under the terms of the Physicians' UPL agreement during 2011 as income was recognized from the Medicaid Supplemental Payments.

Note 13. Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines and unanticipated declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 13. Current Economic Conditions (Continued)

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, including defined-benefit pension plan investments and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.



LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2
Slidell, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the consolidated basic financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of and for the year ended December 31, 2012, and the related notes to the consolidated financial statements, which collectively comprise the Organization's consolidated basic financial statements, and have issued our report thereon dated April 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

An Independently Owned Member, McGladrey Alliance

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Tammany Parish Hospital Service District No. 2's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
April 22, 2013

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Summary Schedule of the Current Status of Prior Years' Audit Findings
For the Year Ended December 31, 2012

STATUS OF FINDINGS FROM PRIOR YEARS' AUDITS

Condition 2011-01: Access to the account balance write-off function in the patient accounts receivable subsidiary is not restricted to a limited group of authorized individuals in the business office.

Context: It was noted through inquiries during the audit that access to the software component used to write-off accounts receivable was not limited as described above. It was later determined that registrars had access to this component of the software and could implement an account write-off. We believe that the condition is somewhat mitigated by the need for specific code entry and the inherent knowledge of the software involved, but potential for misuse does exist.

Effect: The condition results in a weakness in controls involving cash receipts and accounts receivable processing.

Cause: The cause appears to be an implementation issue with the new patient accounting software installed.

Recommendation: We recommend that access to write-off or adjust balances in the patient accounting subsidiary be limited to designated business office employees who do not have a role in handling cash, or other incompatible functions that potentially dilute segregation of duties.

Management Response and Corrective Action: Management was made aware of the control weakness during the course of the audit and assisted in the external auditors' review. Management agrees that certain limiting factors, including access codes and general user knowledge, would limit users' ability to successfully write-off account balances. Additionally, management reviewed write-off data for the year by user and has found no inappropriate adjustments during the audit period. The Information Technology department will remove registrars access to write-off balances and will limit this access to only those who need the ability.

Status: Resolved. Proposed corrections were made during 2012.